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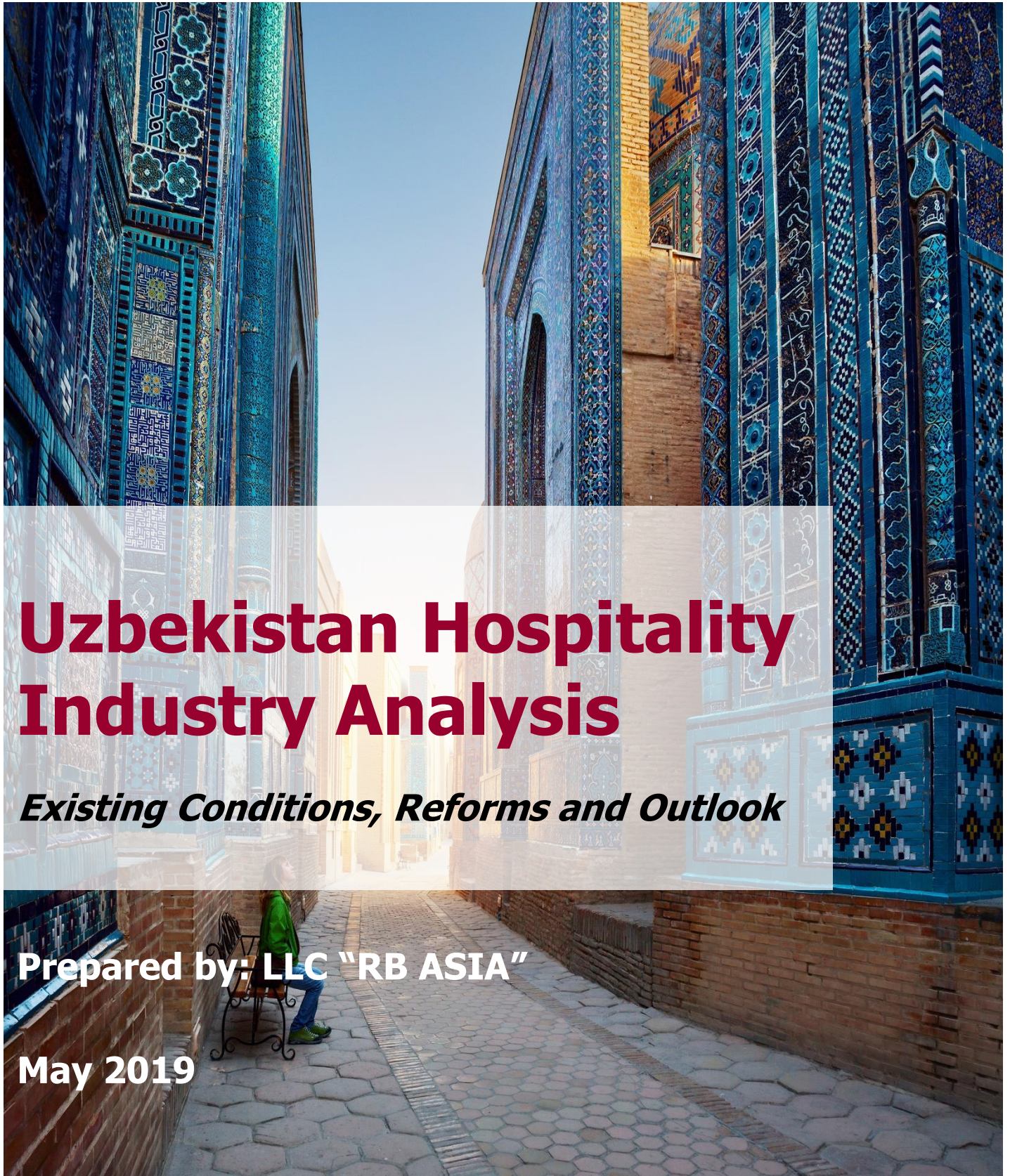
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# Uzbekistan Hospitality Industry Analysis

*Existing Conditions, Reforms and Outlook*

Prepared by: LLC "RB ASIA"

May 2019

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## Highlights

- ❖ In 2018, exports of tourism services for 8 months amounted to 666.9 million USD, which is two times more compared to the same period of 2017 (327.3 million USD).
- ❖ In 2017, 101 accommodation facilities were created, with a total number of 1355 rooms. In 2018, 142 new accommodation facilities began to operate, with a total number of 1 745 rooms and 4 121 beds, reaching up to 914 units.
- ❖ By segments, Mini hotels and Midscale segment hotels are prevailing, followed by Upscale, Upper Midscale and Economy segment hotels, the least number of facilities is in Upper Upscale segment.
- ❖ Tourist and MICE segments, followed by organized groups and foreign tourists, generate most of the demand.
- ❖ In Uzbekistan, most of the sales come from partnership with tour operators, meaning that hotels are dependent on this channel of sales. The other sales channels are corporate, direct and online.
- ❖ Overall, the average occupancy rate for Uzbekistan is 56% with 17% yearly increase, Average Daily Rate is \$69 with 6% yearly rise and Gross Operating Profit is 32%.
- ❖ Concessional lending and tax benefits in the field of tourism, as well as the liberalization of the visa regime - the main measures taken by the state to stimulate the development of the industry, which will favorably affect Hospitality sector.

## Table of Contents

Tourism and Hospitality Industry in Uzbekistan.....	1
Hotel Supply Overview.....	1
Customer Profile.....	3
Sales Channels.....	5
Financial Indicators of Hospitality Industry.....	6
Tourism and Hospitality Industry Reforms.....	6
Conclusion.....	8
References.....	9

## Tourism and Hospitality Industry in Uzbekistan

Uzbekistan is a country with a rich cultural heritage, architectural structures and various nature reserves that attract tourists from all over the world and represents a significant tourist potential.

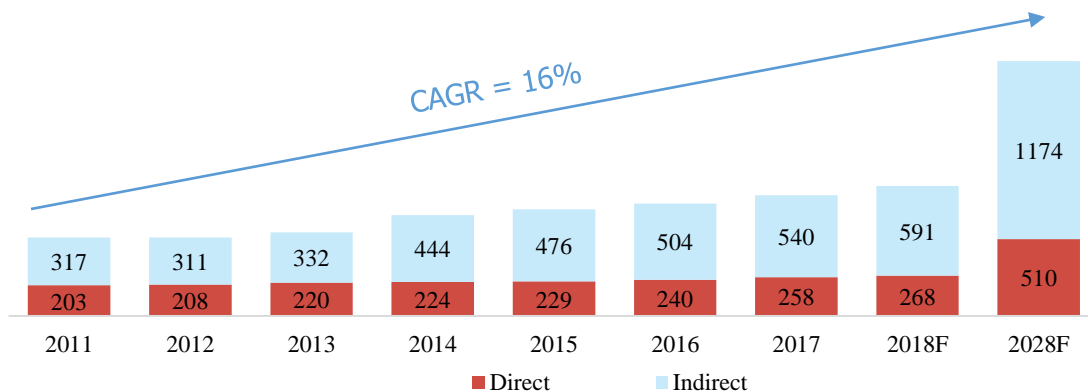
Types of tourism in Uzbekistan:

- Historical and cultural tourism
- Ethnic tourism
- Ecological tourism
- Health tourism
- MICE tourism (meetings, incentives, conferences, events)

In 2018, exports of tourism services for 8 months amounted to 666.9 million USD, which is two times more compared to the same period of 2017 (327.3 million USD).

However, on fifth of January 2019, Tourism Development Concept 2019-2025 was approved by the government in accordance with PD-4861 from 02.12.2016, the goal of which is to transform tourism into a strategic sector of the economy. According to it, it is planned to increase the share of tourism in GDP to 5% by 2025.

*Contribution of Tourism to GDP of Uzbekistan, million USD*

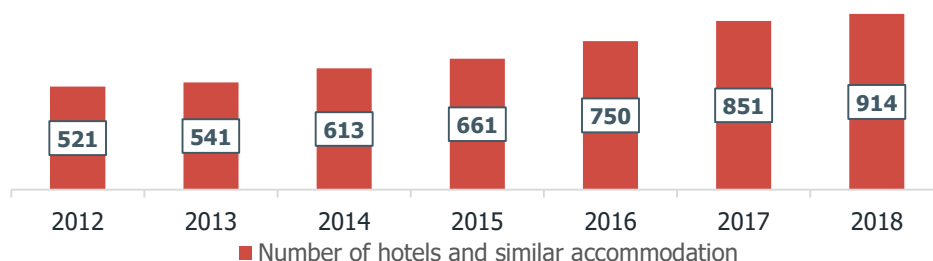


### Hotel Supply Overview

In 2017, 101 accommodation facilities were created, with a total number of 1355 rooms. In 2018, 142 new accommodation facilities began to operate, with a total number of 1,745 rooms and 4,121 beds, reaching up to 914 units.

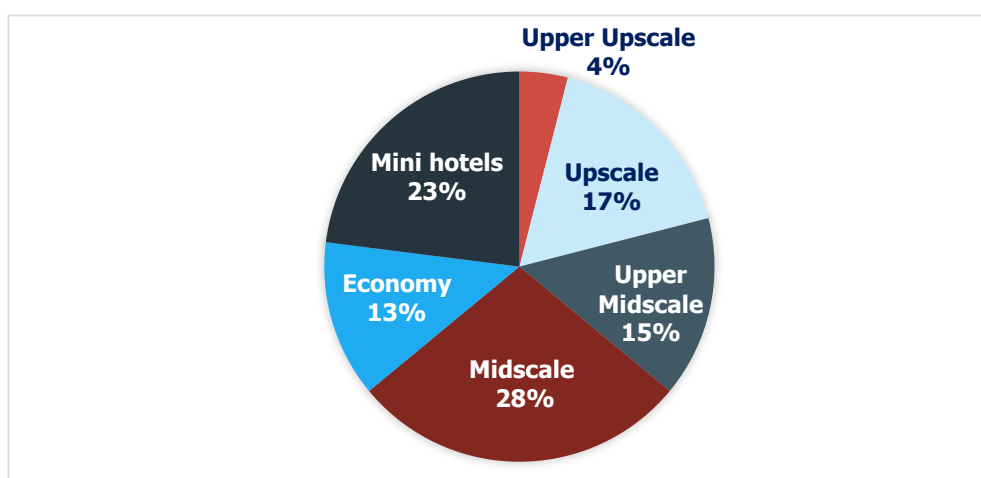
According to the Tourism Committee of Uzbekistan, 180 new accommodation facilities with more than 7000 rooms will be created by the end of 2019. Specifically, the 37% growth is expected.

## Operating hotels quantity dynamics



By segments, Mini hotels and Midscale segment hotels are prevailing, followed by Upscale, Upper Midscale and Economy segment hotels, the least number of facilities is in Upper Upscale segment.

## Hotel Supply by segment, by number of rooms



## Hotel Supply by segment in regions, by number of rooms

	Tashkent	Samarkand	Bukhara	Khiva	Tashkent Region
Upper Upscale	8%	-	-	-	-
Upscale	26%	20%	-	-	28%
Upper Midscale	19%	8%	9%	25%	12%
Midscale	22%	29%	28%	27%	48%
Economy	12%	29%	4%	-	12%
Mini Hotels	13%	14%	59%	48%	-

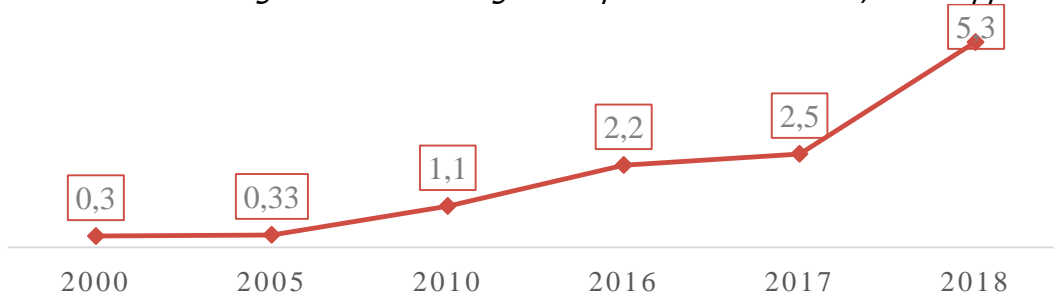
By 2022, the government plans to reach 50 000 rooms stock over the country. It is already approved the construction of 1 500 room capacity in Tashkent city, 1 600 rooms in Samarkand, 1 400 rooms in Bukhara, 350 rooms in Khiva and 350 rooms in Tashkent region.

It should be noted that more than 20 projects with 4\* and 5\* branded hotels are expected to be constructed in Samarkand.

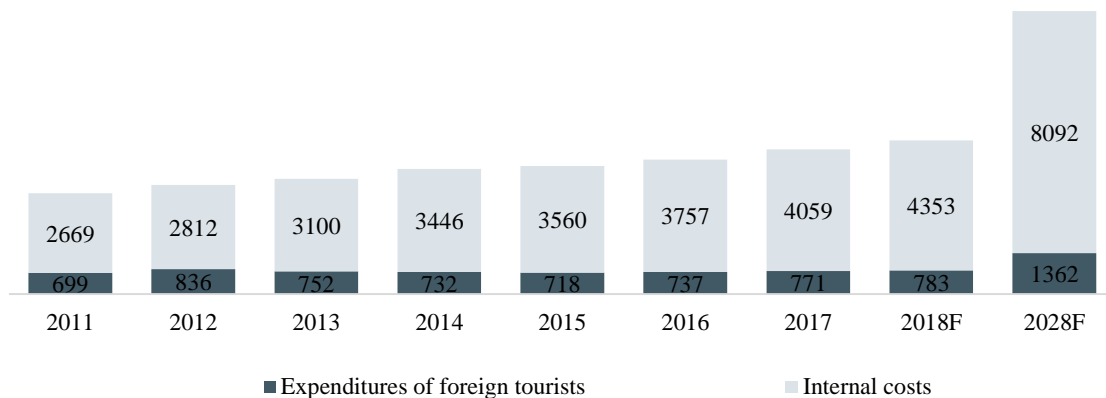
## Customer Profile

The number of tourists who visited the country in 2017 exceeded 2 million 520 thousand and increased by 24.3% compared to 2016, while export of tourist services increased to \$770 million. In 2018, the number of visiting tourists doubled compared with 2017, reaching 5.3 million, due to benefits, reforms, innovations and support the state provided. The number of domestic tourists was 14 million.

*Number of foreign citizens entering the Republic of Uzbekistan, million ppl.*



*Expenditures of tourists, million USD*



### *Business segment (MICE):*

- The MICE segment - holding various business events, meetings, trainings, seminars, conferences, team building, and corporate visits - this demand is up to 90% of general business demand mainly represent business demand.
- There is also the practice of concluding corporate contracts in Tashkent Region Resorts, so that company employees can stay in hotel facilities for recreational purposes - in the general business demand, the share of these guests up to 10-20%.
- Private organizations, banks, pharmaceutical companies, representative offices and branches of large companies hold the main events.
- On average 9.3 corporate events are held per month for 1.8 day or more with 53 participants on average
- The number of events held is evenly distributed throughout the year, but the most active months are July and August, some decrease in business activity is observed in October and November.
- According to information received, requests for holding larger events - from 100 people - are received regularly. The inability to accommodate large groups of people at the same time and provide them with modern infrastructure (spacious conference rooms, equipment, open areas) leaves the demand in this segment unsatisfied.



*Tourist segment:*

- Now, the main share of demand in the hotel facilities is made up of guests arriving for leisure purposes.
- Depending on the volume of the number of rooms, the facilities work with both individual tourists and group arrivals organized through tour operators.
- Individual tourists are mainly families with children. Peaks of demand from this subgroup are the summer months and periods of children's holidays, when their share among total demand reaches 90%.
- On average, the proportion of guests with children among the tourist segment is about 70-80%.
- The average duration of stay of guests arriving for the purpose of rest is 1-2 nights.

*Organized groups:*

- According to the companies operating in the tourist market of Uzbekistan, most large international tour operators work in Uzbekistan through local intermediaries (DMC), some operators completely delegate service to local companies: ground service — transport, guides, and hotel reservations, and sightseeing escort.
- Among those companies that purchase all or part of their services from local DMCs - TUI, Marco Polo, Cox & Kings, Thomas Cook. In general, this trend is still present in the market because tourist flows are still not large enough. Nevertheless, with the development of the country's tourism potential and related infrastructure, large operators are likely to increase their presence by opening local offices, allowing them to control and provide a full range of travel services directly, bypassing intermediaries.
- Among companies already working in the market of Uzbekistan directly:
  - HRG, American Express has a local joint venture with a local partner - Elan Express;
  - MIR CORPORATION has a representative office in Tashkent, from where it locally organizes a full service cycle for its groups in Uzbekistan and the region as a whole.

*Foreign tourists:*

- The age group from 35 to 45 years is the largest number of respondents who arrived from Central Asia (29.4%), CIS (33.8%) and the APR (30.0%). The main part of European tourists are people of 55 years and older (42.5%).
- The purpose of the trip to Uzbekistan of the main part of the respondents surveyed is to visit friends and relatives. This part makes up 39.4% of the total number of respondents. The second largest segment of respondents is 33.6%, who answered that the purpose of visiting Uzbekistan was vacation, leisure and recreation.
- When traveling in the Republic of Uzbekistan, the largest proportion of respondents (43.6%) chose to stay with family and friends. 85.1% of those who chose to stay with family and friends are visitors from Central Asia.
- The main part of tourists from Europe (34% and 37.0%) and the APR (40.0% and 43.0%) prefer as a means of accommodation 2-, 3-star and 4-, 5-star hotels. A similar situation is observed when tourists from the Middle East from North America choose a type of accommodation in Uzbekistan, when 79.6% and 75.0% of tourists from these regions respectively chose 2-, 3-star and 4-, 5-star hotels for their stay.
- Visitors from Central Asia showed the greatest interest in shopping in Uzbekistan (39.7%). The main part of visitors from Europe (77.5%) and the APR (72.2%) noted visiting museums and galleries as a tourist activity during their stay in Uzbekistan.

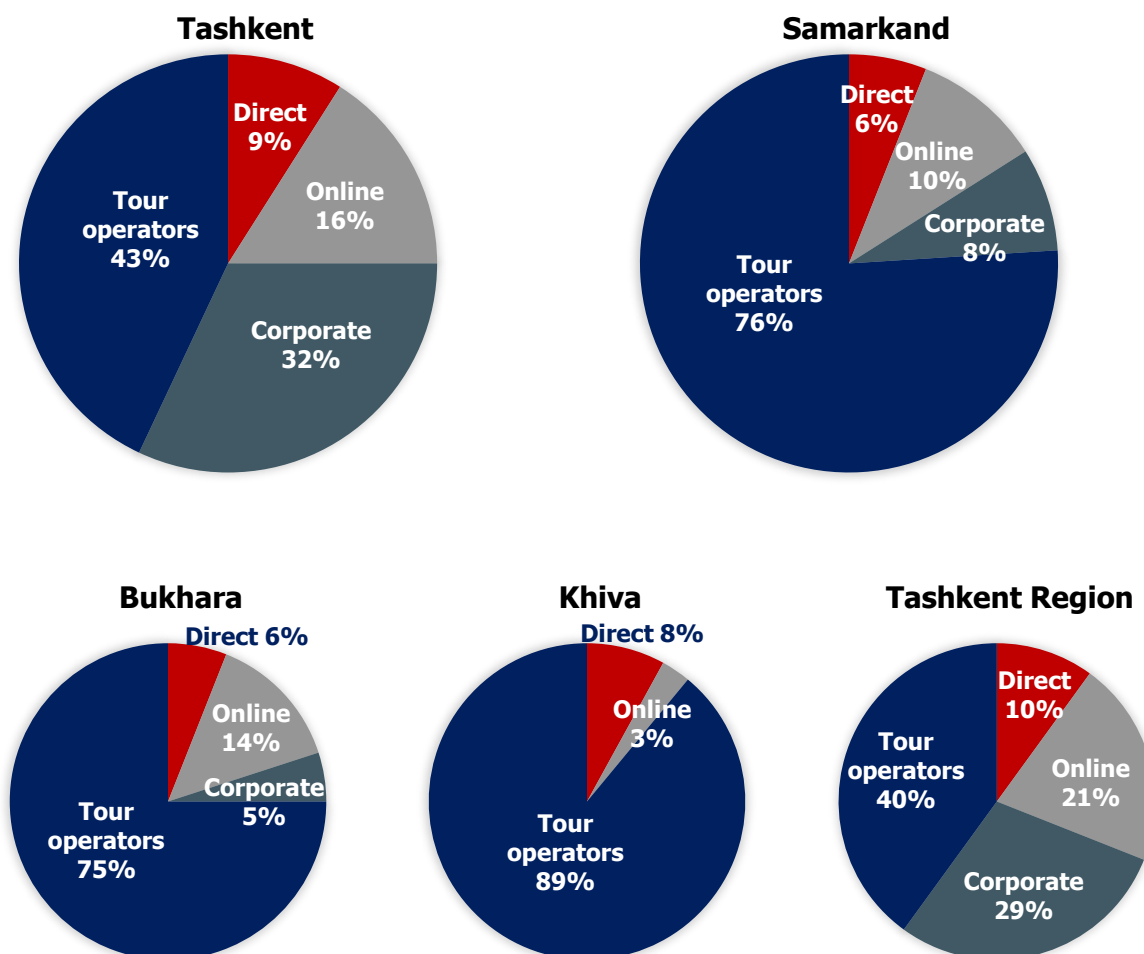
## Customer profile

	Guest Age	Length of Stay	Group Size	Business vs. Leisure	Individual vs. Group	Domestic vs. Foreign
Tashkent	47	2,54	24	59%/41%	56%/44%	11%/89%
Samarkand	62	2,4	22	13%/87%	18%/82%	31%/69%
Bukhara	58	2,3	21	10%/90%	27%/73%	18%/82%
Khiva	60	1,75	23	6%/94%	15%/85%	18%/82%
Tashkent Region	38	4,2	25	20%/80%	78%/22%	74%/26%

## Sales Channels

In Uzbekistan, most of the sales come from partnership with tour operators, meaning that hotels are dependent on this channel of sales. The other sales channels are corporate, direct and online. In most of the regions, shares of direct sales prevail the share of online sales, meaning that even though 21<sup>st</sup> century is era of digitalization and Internet technologies, Uzbekistan’s hospitality facilities are underestimating this cost-effective source of sales.

### Sales channels by regions



## Financial Indicators of Hospitality Industry

Overall, the average occupancy rate for Uzbekistan is 56% with 17% YoY, Average Daily Rate (ADR) is \$69 with 6% YoY increase and Gross Operating Profit (GOP) is 32%.

By cities, Tashkent has the highest occupancy rate and ADR, mostly due to being the capital and the center of all business activities. The next city with the second highest occupancy rate is Samarkand, growing in a good pace. Furthermore, even though occupancy rate in Khiva is the lowest, the growth rates are great. Assumably, the reason behind this growth is that historically hotels in Khiva did not operate in low season months due to low demand, but in 2018, the trend has changed and many hotels continued operating all year long. Finally, for resorts in Tashkent Region the 45% occupancy rate is a good indicator, since the demand in this region is very seasonal with rapid fluctuations.

	Occupancy	Occupancy YoY Growth	ADR	ADR YoY Growth
Tashkent	62%	13%	\$ 87	8%
Samarkand	61%	14%	\$ 66	6%
Bukhara	53%	17%	\$ 55	7%
Khiva	45%	34%	\$ 40	3%
Tashkent Region	45%	10%	\$ 76	8%

More information on occupancy changes in different seasons is given in the table below:

Occupancy	High Season	Mid-Season	Low Season	Low Season Decrease in Price
Tashkent	83%	57%	40%	18%
Samarkand	89%	57%	33%	5%
Bukhara	89%	52%	28%	15%
Khiva	84%	41%	14%	13%
Tashkent Region	84%	38%	19%	26%

## Tourism and Hospitality Industry Reforms

Concessional lending and tax benefits in the field of tourism, as well as the liberalization of the visa regime - the main measures taken by the state to stimulate the development of the industry, which will favorably affect Hotel business.

### 1. Concessional loans

Preferential loans will be provided to enterprises for co-crediting, that is, partially, enterprises also invest in the project.

Lending terms: The loan term is 15 years; the grace period is 5 years.

Lending is provided for the purchase of imported equipment and technologies for hotels and objects of the adjacent road, engineering and communication infrastructure.

The amount of credit allocated to one client at the expense of the target credit line funds shall not exceed 50 percent of the project amount. The loan amount should not exceed 10 million USD for one investment project.

Loans are granted based on positive decisions of authorized commercial banks on the economic and financial feasibility of implementing an investment project. In this case, the loan amount issued to one borrower.

## 2. Tax benefits

In accordance with the Decree of the President of the Republic of Uzbekistan of December 2, 2016 No. DP-4861 (paragraph 12), from 1st of July, 2017 foreign direct investors in the sector are exempt of customs payments and such taxes, as corporate income tax, property tax, general tax payment for micro firms and small businesses, obligatory deductions to the Republican Road Fund with the volume of direct private foreign investment:

- < \$3m invested – 3 year exemption
- \$3m to \$10m invested – 5 year exemption
- \$10m invested – 10 year exemption

## 3. Customs benefits.

Companies in the tourism sector for the period up to January 1, 2022 are exempt from customs duties (except customs clearance fees) for importing following goods:

- Tourist class vehicles;
- Equipment, machinery and spare parts;
- Raw materials.

## 4. Liberalization of the visa regime

Starting from February 10, 2018, Uzbekistan introduced visa-free travel for 30 days from the date of entry for citizens of 45 countries (mainly for OECD countries). Approved list of 76 countries in respect of which a simplified procedure for obtaining tourist visas is being introduced. The cost of an entry tourist visa decreased from \$60 to \$40. In addition, the limit for a group tourist visa has decreased from 10 to 5 people.

Since July 15, the system for processing and issuing electronic entry visas E-VISA.UZ has been put into action. From March 15, for the convenience of tourists a double and multiple electronic visas will be introduced. In addition, new categories of entry visas are being introduced - Vatandosh, student, academic, medical and pilgrim. This will allow Uzbekistan to transform into a regional educational and medical hub, expand scientific exchange, and attract pilgrims to holy places.

## 5. Partial financing of royalties

Within three years since the entry into force of the franchise contract, the royalty of organizations for the use of well-known and prestigious global hotel brands (according to the ratings of the top 50 hotel brands) is partially funded from the State budget in the following amounts:

- The first 50 hotels with a category of 3 stars - annually in the equivalent of \$ 200 per room for each hotel;
- The first 30 hotels with a 4-star category are annually equivalent to \$ 400 per room for each hotel.

## 6. Partial financing of construction expenses

Part of the investors' expenses for the construction and equipping of the new hotel is compensated by the State Budget of the Republic of Uzbekistan, if it is put into operation before January 1, 2022. The amount of funding is:

- 40 million soums for each room in hotels with a category of 3 stars (with a room fund of at least 50 rooms);

- 65 million soums for each room in hotels with a category of 4 stars (with a room fund of at least 100 rooms).
7. The land plot allocated for the construction of a hotel after its completion can be sold to the investor on the right of ownership.

**8. Canceled requirements for hotels:**

- Permits for each stationary retail outlet and catering facility that sells alcoholic beverages to guests (a bar, mini bar, cafe, restaurant) owned by the hotel and located inside it;
- Licenses for the provision of transport services for their guests on the transfer from the airport, railway / bus station to the hotel and back, as well as tourist facilities.

## Conclusion

The key factors for hospitality industry growth in the next decade are the availability of improved infrastructure, liberalization of visa regime, tax and customs exemptions, compensation of investor's costs on construction of 3 and 4 star hotels.

Since July 15, 2018, tourists can enter the territory of Uzbekistan by e-visa, which will allow staying in the country for up to 30 days. It is valid for 90 days from the date of issue.

Moreover, in the fall of 2018, Uzbekistan authorities introduced visa exemptions categories of foreign guests. This affect, in particular, those who go to the countries of the Silk Road; those born in Uzbekistan and their families; as well as major investors.

According to research results, it is predicted that Uzbekistan's hospitality market will continue to experience the growth. Moreover, due to recent developments of the free economic zones and the close attention of the government to the development of tourism, the hospitality industry is expected to be replenished with new high-quality accommodation facilities.

Political – economic reforms, as well as the active course of the government on the development of tourism and tourism infrastructure in the country, will contribute to an increase in both MICE segment related to business activity and the recreational flow of tourists.

Furthermore, other more cost-effective sales channels except tour operators should be considered and developed. The opportunities presented by the Internet, such as online booking, high-quality websites, marketing and promotion on various social media sites are being underestimated by current hoteliers.

Nevertheless, we believe that a similar leap in the development of the hotel supply and tourist infrastructure in the region will have a favorable impact on the growth of tourist traffic and location image, which will ensure effective operational performance of facilities at a level that, assures the profitability of investments.

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